"Monte Carlo Fashions Q2 FY2019 Earnings Conference Call"

November 14, 2018

ANALYST: **MR. KAUSHIK KRISHNAN – EMKAY GLOBAL FINANCIAL SERVICES**

MANAGEMENT: **MR. SANDEEP JAIN - EXECUTIVE DIRECTOR – MONTE CARLO FASHIONS LIMITED**
MR. DINESH GOGNA – DIRECTOR – MONTE CARLO FASHIONS LIMITED
MR. SHARMA – ACCOUNTS HEAD – MONTE CARLO FASHIONS LIMITED

Moderator: Ladies and gentlemen, welcome to the Monte Carlo Q2 FY2019 earnings conference call hosted by Emkay Global Financial Services. We have with us today Mr. Dinesh Gogna – Director, Mr. Sandeep Jain – Executive Director. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Kaushik Krishnan of Emkay Global. Thank you and over to you!

Kaushik Krishnan: Good afternoon everyone. I would like to welcome the management and thank them for giving us this opportunity. I would now like to hand over the call to the management for their opening remarks and over to you gentleman!

Sandeep Jain: Good morning, dear ladies and gentlemen. It is a great pleasure to greet you all on behalf of our Board of Directors and the senior management.

We begin by thanking you all for sparing your valuable time to join us here today to discuss our Q2 results for the FY2018-2019. Before discussing about the financial performance, I would like to brief you about the accounting changes that we have undertaken. As you know in our cotton segment, we used to provide raw material and fabrics to our vendors and take the finished goods back from them. Earlier we used to include the sale of raw material in our overall sales, but now onwards under Ind-AS 115 we are not including our raw material sales in our reported revenue and so previous period revenue and cost of raw materials is adjusted downwards and we have put down various statements for like to like comparison. However please note that this will not have any impact on the overall EBITDA and net profit and we have never made any profitable sales of this raw material. Monte Carlo has began the FY2018-19 with a stable first half. Our revenue during the quarter stands at Rs. 125.5 Crores, which is 16.1% higher as compared to Y-o-Y last September quarter. EBITDA margin during the quarter stands at 11.7% which is lower compared to previous year due to increase in advertisement and other expenses. Our depreciation cost has remained fairly stable and we have achieved Rs. 6.9 Crores profit after tax during this quarter.

At Monte Carlo we continue our endeavour for building a leading branded apparel company. Our cotton segment contribution to the overall revenue has increased from 56.9% in Q2 FY2018 to 60.5% in Q2 FY2019. Over the years, we have successfully expanded our horizon and diversified our business operations. We have created a comprehensive range of woolen, cotton, cotton blended, knitted and woven apparels, and home furnishing to some of our ranges under umbrella brand name Monte Carlo such as Platine, Denim, Alpha, and Tweens. We have also added sport segment last year into the brand Rock It.

So, one of our key strengths has been our wide and growing distribution network with a prolific presence across India. We have a deep presence across India through 2500 plus MBOs, as on date 249 EBOs and 334 national chain store outlets.

Majority of our net revenues comes from MBOs and franchise EBOs where we primarily sell on preorders and outright basis. By virtue of this business model, there is no major inventory risk and we remain adequately insulated from the normal hazards of branded apparel business.

I would like to highlight that till date we have experienced almost zero bad debt in our business, which stands testimony to our strong business model based on a zero-credit risk policy for the company.

Commenting on balance sheets since the last two years we have constantly been making effort towards reducing the debt levels within the business. Our debt equity ratio remains very low and showcases the balance sheet strength of the company which can be used for the faster growth and to reward share holders.

At the end of September 2018, we had Rs. 148 Crores of cash and cash equivalent in our balance sheet reflecting the inherent strength of the business. We remain optimistic about our future growth and earning potential. We believe that we have a strong foundation for the future which can provide us sustainable and profitable growth for the long term.

We plan to diversify our pan-India presence by increasing our penetration into Central, Southern, and Western regions of India. Our current strategy is to establish our brand visibly on a pan India basis. We have already made an encouraging beginning towards this goal. We are strongly focused towards rewarding our shareholders by following an asset light business model. In this endeavour, we are focusing on optimizing our asset utilization, quality, efficiency, and relationships. We have enough capacity headroom to see us through the continuous growth in the near-future therefore we do not envisage any major capex for the next two years during which our growth will primarily be achieved from higher capacity utilization.

So, we once again thank you all of you for sparing your valuable time and joining us here today. We can now open the floor for question and answer session. Thank you.

Moderator: Thank you very much. We will now begin with the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We have the first question from the line of Sunil Jain from Aditya Birla. Please go ahead.

Sunil Jain: Sir, I have three questions if you could kindly throw some light on that. One is the gross margin is showing significant dip from 61% to 53%. So kindly explain what are the reasons for that and the second point is that in your other expenses I mean advertisement expenses yes one can understand it is going up from Rs.3 Crores to Rs.6 Crores, but your other expenses is showing increase from Rs.23 Crores to Rs.30 Crores. Kindly explain what they say and where the company is spending because the revenues are going down or not increasing adequately then what other expenses are there. Obviously, the overall sort of dip in EBITDA margin and PAT margin is a cause of concern. So how does the company expect to sort of meet this and is there any revision in the overall guidance for the year? Kindly throw some light on these three aspects.

Sandeep Jain: First of all, thank you very much Sunil ji because I was expecting this question and I think it would help us to clarify our stance as far as this Q2 results are concerned. Your first point was the overall gross margins have come down. The reason for that if you see the home furnishing segment which has lower gross margin actually jumped from Rs.16 to 27 Crores. So last year the dispatches basically happened in October to December period and this year dispatches happened in August and September period. So that is why there is a dip in the gross margin as far as the overall gross margins are concerned.

Your second question was, other expenses have gone up. See this year our production is higher as compared to the last year that is why the packing and other expenses have gone up and that would actually result in sale in this coming quarter, which is October, November, December. Because when we have more inventory right now on 30th September which is going to be sold off in this quarter almost 90% is being sold from our primary sales from our company. So, the higher production has resulted in to higher other expenses, which will definitely result into higher sales in coming this Q3. So, I think I have answered all these three questions which you have asked.

Sunil Jain: No Sir, but if you are saying that some of these expenses have been incurred and the material has not been sold, okay then that would get adjusted in the inventory valuation. So, there will be no impact on the gross margin Sir?

Sandeep Jain: No it means that because most of the work is outsourced, so we have already purchased and kept the inventory in our case and some of these inventory is being shifted to the vendors also so that has resulted in the higher cost and also the packing material as compared to last year has increased by 11% to 12% and that would result..

Sunil Jain: I understand Sir, but if material has been purchased and it has not been consumed either it is lying as packing material or it lying as WIP or it is lying as finished goods inventory then it will get adjusted in the inventory valuation as cost. So, if that was the case there may be an increase in the expenses but there would not be increase in the EBITDA margin, but here the EBITDA margin is also coming down from 23 to 11.

Sandeep Jain: Sunil ji, I would ask my CFO to answer on this question, basically the GP also goes up so he can explain on this question.

Sunil Jain: Sir, please.

Sandeep Jain: Mr. Sharma or Mr. Gogna can explain it.

Dinesh Gogna: The way of selling our clothing stock actually is selling price minus GP. In this quarter, the GP was higher, so therefore the cost of material has been reduced because the GP pertains only for a small quantity of goods. Now in that case what has happened is the profit element which is involved in the stocks had been adjusted according to the GP of this quarter because one is this I take the cost of each and everything in my books then what you are saying is correct, but in case my valuation of the clothing stock is dependent on GP then the fluctuation in GP will affect my market because my GP is higher in this quarter of the other quarter…of the material which I have already sold so therefore when I value my stocks which are much higher at the moment in case you see my inventory has gone up.

Sunil Jain: Inventory has certainly gone up.

Dinesh Gogna: So, what has happened is that my valuation or you can say the profit element in the stock have not been reflected in the profit loss account till the time it is sold.

Sunil Jain: Obviously sir inventory does not include profit that is a sort well known thing.

Dinesh Gogna: I have understood your point of view, please appreciate, If I would have taken this on cost basis then things would have been different, but my way of arriving at the cost method for the last 35 years is that selling price minus GP.

Sunil Jain: Obviously Sir we do not include profit in the inventory valuation and that is why it is does not quite match.

Dinesh Gogna: Then my GP is higher in this quarter for other products obviously my valuation of the stock will be lower.

Sunil Jain: We will take this offline I think Sir, I mean, I have not understood your point, but we will take this offline.

Dinesh Gogna: Anyway. you are welcome to e-mail to me, I will explain it you later. Even you can give me a call I will explain it you.

Sunil Jain: The third question was that I mean the PAT margin dipping from 14% to 5% how does that impact your overall assessment of FY2019?

Sandeep Jain: Again I repeat that happened delayed in festive sales this year as the Diwali was in November so some of the shipments have been delayed and we are fully confident that the guidelines which we have given in the beginning of the year, we stand by that guidance and in Q3, we would see the better margin as Mr. Gogna has already explained about the GP fact. So, the margin will come back to the normal when we have our Q3 results.

Sunil Jain: So, in terms of your dispatches and what you are seeing now happening at the marketplace, so based on that you feel that Q3 will cover up the lower sales and lower profits of Q2?

Sandeep Jain: 100% there is no doubt about that, when we have the Q3 results, we will have the margins top, revenue margins as we have given the guidance of 15% and the EBITDA will maintain at the same level which we had last year, which already we have guided in the beginning of this year also, we are in a business which is a very seasonal business and there can be a depress in the quarter to quarter but overall the business remains stable and overall the margin will remain stable. As far as this quarter is concerned, we have seen very good growth as compared to last year, but I do not want comment on that as everybody know about the winter season has started earlier this year. So, once we have the third quarter results, I think everything will be clear.

Moderator: The next question is from the line of Neeraj Mansingha from Goldman Sachs. Please go ahead.

Neeraj Mansingha: Sir I think my same question like the earlier participant on your gross margin, is there a way to explain right now on the call or you want to take it offline?

Sandeep Jain: Gross margins went down because there is a higher…

Neeraj Mansingha: Can you take an example and explain if the raw material was 100 and so…

Sandeep Jain: So, what we can do is that we can send you the e-mail. If you can write it right now to us to Mr. Gogna or Mr. R.K.Sharma or to myself also, we can reply and explain on that mail.

Neeraj Mansingha: Second thing, how much like-to-like growth in the stores that you have seen?

Sandeep Jain: So as on date if we see it on 1st April to 31st October, we have seen the like-to-like growth was 8% and the overall growth in the retail segment was 13% with addition of new stores also.

Neeraj Mansingha: How much was the volume growth that you have seen in Q2 versus last year Q2?

Sandeep Jain: I can give you the complete figures of each and every category, just hold for a moment, for volume growth.

In the garment segment, in the cotton category total which includes CMD and other knit also**,** it is Rs.24.6 Lakhs as compared to Rs. 20.38 Lakhs last year and in case of woolen it is Rs.2.54 Lakhs as compared to Rs.1.98 Lakhs last year.

Neeraj Mansingha: Home furnishing?

Sandeep Jain: It is Rs.2.14 Lakhs as compared to Rs.1.11 Lakhs

Neeraj Mansingha: Has there been a decline in the average selling price or increase, can you share some thoughts on your ASPs of each of these three categories?

Sandeep Jain: As far as the cotton segment is concerned the ASP of last year was 642 and this year is 661 and in case of woolen it was 1,307 and this year it is 1,013.

Neeraj Mansingha: Okay and home furnishing?

Sandeep Jain: Home furnishing was 1,562 last year and this year it is 1,261.

Neeraj Mansingha: So there has been perceptible fall in the realization of woolen right now that you have?

Sandeep Jain: No that is not a fall in realization we are able to sell only the lower price that too blanket this year as compared to last year. The realization is the same, only the blankets which is in the range of Rs.2,000 plus they have been sold more as compared to last year, so that is why the average sale price has come down, but the realization is actually better in blanket this year as compared to last year.

Neeraj Mansingha: Can you share about how you are seeing the like-to-like till date, mainly this quarter, the running quarter, the October month and maybe almost half of November in value terms?

Sandeep Jain: See right now if you see the last one and a half month, we have not seen the retail growth of approximately 20% as compared to last year in value terms.

Neeraj Mansingha: Has there been any upgrades or downgrade like the ASP has increased or gone down just as a thought wanted to know?

Sandeep Jain: ASP have increased as far as Monte Carlo woolen and Monte Carlo cotton garments are concerned in this quarter.

Neeraj Mansingha: Can you share your outlook on the woolen prices and how you are managing situation whether you are importing those and on those types?

Sandeep Jain: Woolen prices now has become stable and we do not see further rise in wool price would be there and as far as retail is concerned, we are adequately protected by the increase in the wool price because that has been covered in the raw material pricing. So next year prices only take place in the month of April, so we have plenty of time. By the time we reach in April we need to see the wool prices and then accordingly prices will be fixed.

Neeraj Mansingha: Yes, but generally what is the trend when you see the wool prices going up as you will see the next year the selling price of garments going up, how do you see the customer reacting and how do you generally get ready during that situation?

Sandeep Jain: We have been gradually shifting from pure wool to wool blended garments from last few years. So definitely there is an increase in purchase of the wool blended, actually wool polyester garment as compared to pure wool garment. In pure wool, there will be definitely hike in the prices in the next year because there is a segment which buys pure wool sweater only and they pay the price and in other case we have actually wool blended sweater where the price increase will be less, and I think that will be adjusted as far as the market is concerned.

Neeraj Mansingha: Can you share some thoughts on your buyback what you are thinking of?

Sandeep Jain: Already a committee has been formed and the committee will decide about the total quantum and the purchase which has to be happened and you will come to know in I think next 30 days.

Neeraj Mansingha: Any thoughts or any basically boundaries you have decided for those committee or just open ended?

Sandeep Jain: Nothing has been decided, but only thing that we wanted to give our shareholder a value because we think that the price has come down below what… actually it should reflect as far as Monte Carlo brand is concerned and the company is concerned. So, I think there was a requirement for our company to look into this area. That is why the committee has been formed.

Neeraj Mansingha: Sorry sir one more question, on the Rock-It, revenues how much was it, this quarter ended?

Sandeep Jain: This quarter it is Rs.60 Lakhs.

Moderator: Thank you. The next question is from the line of Sandeep Nag from Ashmore India. Please go ahead.

Ashwini Agarwal: Hi Sandeep, this is Ashwini here. Just looking at the numbers, I am reverting to the question, the previous two respondents on the call have also asked. If I just zoom out and think about it, your revenues have grown from Rs.108 Crores to Rs.126 Crores yet your gross profit has remained at Rs.66 Crores, has grown only by 1 Crores, from Rs.66 to Rs.67 Crores. I know you said that you sold much more of home furnishing this year because of which margins have gone down. Can you help us understand the breakup of Rs.108 Crores last year versus Rs.126 Crores of this quarter to see how big the difference could be?

Sandeep Jain: I have the figures available with me for the first half. The woolen was Rs. 25 Crores last time, this year it is Rs. 24.27 Crores and the cotton was Rs.100 Crores which is Rs. 118.8 Crores this year, the kids was Rs. 6.84 Crores which is Rs. 7.12 Crores this year, the textiles, home furnishings Rs 17 Crores last year this is Rs. 27 Crores this year, the Cloak and Dagger which is economy brand which was Rs. 4.84 last year is Rs. 9.24 this year and the accessory which was Rs. 1.38 last year is Rs. 1.61 this year. So overall Rs.156 which was last year, this is Rs.188 for first half a growth of 20%.

Moderator: We seemed to have lost the line Sir. The next question is from the line of Harish Shah who is an individual investor. Please go ahead.

Harish Shah: My again same concern on whatever the other participants have talked about the gross profits and all those things. I have few questions on that. If you are saying that you are valuing your inventory by deducting gross profit from the sales value, how do you decide the gross profit margin?

Sandeep Jain: I would give this call to Mr. R.K. Sharma, our finance controller, he can explain this.

R.K. Sharma: Good afternoon. First of all, we calculate the gross profit on the basis of manufacturing expenses as per actuals and after considering all the manufacturing and direct expenses, we get the GP ratio without considering on the basis of WSP stock, value on the basis of WSP value.

Harish Shah: Okay Sir, but the packing material what you have purchased that is part of the cost or not?

R.K. Sharma: Yes, definitely if it is consumed.

Harish Shah: Sir it is the part of the calculating manufacturing cost or not?

R.K. Sharma: It is a part of cost, except selling and admin, everything is part of the cost.

Harish Shah: So, then it is taken into inventory only that cost is taken to inventory, how the gross profit margin will come down, I do not understand. This is what you know you are not able to explain any of your participants how this is affecting your profit margins and second thing: my fundamental question is it the correct method of valuation allowed under accounting standard?

R.K. Sharma: It is allowed method actually, but however we are thinking to migrate to the costing method whenever in the Q3 we may think of it.

Harish Shah: Because the way you are explaining the thing is amounting to that because of this evaluation your profits are getting shift from one quarter to another quarter, so this is not the correct way of doing accounting.

Sandeep Jain: Gentleman let me just tell you we have been following this system for the last 35 years.

Harish Shah: For 35 years you were only into woolen products now you are doing the cotton also.

Sandeep Jain: I am just coming to that point. Let me just tell you, Grant Thornton our auditor and they will never allow us something which is not permissible under accounting standard.

Harish Shah: Because you are only explaining that the next quarter there will be more sales and it will be reflected.

Sandeep Jain: I am not explaining you that, what I am saying is as you said how this is allowed, I said this is allowable method of arriving at the cost. There are three methods that have been prescribed in the accounting standard, when you are dealing in the retail business and then the accounting is kind of prescribed three methods to arrive at the cost and one of the methods is this that the selling minus GP when you are dealing with multiple products. So, this is the method which is a recognized method and that is the reason my auditors allow me. Otherwise they would have disqualified it and Grant Thornton is not something like which will not qualify anything which is illegal. So secondly so far yes gradually we also wish that in the progressive society and when the corporate sector has also progressed so much gradually, we should switch over to cost arriving system and we are trying because we have got 500 items and how we can introduce, we have introduced the SAP system, everything is there. Now we are on this side on this roll only that there should be some method where we can arrive at the cost, direct cost, not this method of cost, but nevertheless, this method is also one of the recognized methods of arriving at the cost when you are dealing in the retail business and products are multiple.

Moderator: We seem to have lost the line for participant. We will move to the next question.

Sandeep Jain: I have given you the answer, if he has disconnected it is up to him.

Moderator: His line has dropped. We will move to the next question. The next question is from the line of Kenin Jain from Emkay Global. Please go ahead.

Kenin Jain: Sir I want to understand one fundamental question that after GST how is the business landscape. There were lots of thought that in each and every category there will be a market share shift from unorganized people to organized people it would start at a slower pace but as the time proceed the shift would be far rapid and it would be beneficiary to the organized player. So, can you please throw some light on this fundamental aspect maybe from a one to three year perspective both in winter category, in cotton category, how the landscape will actually change because that would be really helpful?

The second question is that as you have mentioned that the winter outlook looks good. So perhaps I think a lot of time correction processes and you are working on many thing so how the business outlook look from a two to three years perspective?

Sandeep Jain: As far as shift of organized to unorganized is concerned it is definitely happening but in a slower pace but the reason for not picking up very fast is that economy actually has not picked up yet. We are still in a phase we have been growing around 6 to 7%, when the economy starts picking up and at the same time the disposable income will also pickup so by that time we can have increase in spending and also revenue should increase as compared to the previous, if you compare to two to three years of around 10 to 15%, it can grow at around 20% but it all depends on how fast the economy picks up from the current pace and definitely there has been shift from unorganized to organized as we have seen that in many cases there have been some small business they are closing it down at the same time business is being kicked up by the bigger companies and that is gradually happening and will keep on happening in the coming quarters also.

Kenin Jain: Second question is, Sir what will be our annual capex for the next two to three years and what is the operating margins on a sustainable basis over the next two to three years?

Sandeep Jain: We have already guided in the last conference call also, that we do not see a capex of more than Rs.10 Crores for the next two years.

Kenin Jain: Okay and on the margin front?

Sandeep Jain: We would like to maintain the last year's margin in this financial year 100% without any doubt because there has been a variation from quarter to quarter. We are in a business which depends on the festive season, on the wedding season, so sometimes there is a shift of high margin goods from one quarter to another quarter, sometimes you sell less margin goods, so margin comes down. But overall if you see Monte Carlo on an annual basis you should have the same margin at around 15% growth which is given by us in the conference call in the Q1.

Moderator: Thank you. Next we have a followup question from the line of Sunil Jain from Aditya Birla. Please go ahead.

Sunil Jain: One small thing if you could highlight the exchange has been fluctuating quite a bit in the last few months and it is expected to be fluctuating even going forward. So, does that in anyway impact our cost. Are we importing the whole or sort of is there an indirect import ultimately is the wool imported or is it Indian, how does it impact?

Sandeep Jain: As far as the Australian Dollar is concerned it is more or less stable, actually it has depreciated as the rupees has depreciated against the US Dollar. So most of the imported wool actually happens in Australian Dollar. So, I do not think there is major effect as far as currency is concerned but yes if there is an increase in wool prices now onwards then definitely, we need to increase our prices for the next year.

Sunil Jain: Are you seeing any increase in wool prices for this season?

Sandeep Jain: We see stable prices from now onwards because whatever increase was there, I think it has happened, so we should see a stable wool price for next six months.

Sunil Jain: How much is the increase in the last six months like approximately?

Sandeep Jain: It is approximately I think around 8% to 10%.

Sunil Jain: Oh okay. There is a significant increase in raw material prices therefore?

Sandeep Jain: Yes, but the raw material constitutes around 50% so you no need to pass on all the price. There are other sectors also and definitely because when you make the blended sweater, the percentage of wool comes down further it comes down to around 50% or say 30% and in that case the increase is not that much as we compare to pure wool garments.

Sunil Jain: And one more question is there on this as the advertisement cost has gone up this time, but was there something which you are investing for the future but how do you plan and what is your strategy on advertising, you want to sort of advertise heavily or you want to localized advertising what is your strategy?

Sandeep Jain: The overall advertisement spend for the year is fixed. It will not go beyond what we have said in our first conference call, it would remain same, but there can be seasonal variation and variation in quarter to quarter as per the advertisement spend is concerned, which has happened in this quarter. So next quarter will benefit out and definitely if there is an increase in our ad spend in this quarter, next quarter it will come down, next quarter again it can go up, but the overall spend for the company would remain at around 4%, which was last year also.

Sunil Jain: Okay.

Moderator: Thank you. next we have a followup question from the line of Ashwini Agarwal from Ashmore India. Please go ahead.

Ashwini Agarwal: Hi Sandeep I got disconnected, you had just started giving me the breakup of the revenues for the quarter, Rs. 126 Crores versus Rs. 108 Crores of last year, broadly what is the breakup?

Sandeep Jain: Actually, I have figures right now with me for the H1 which I will share with you. Woolen was.25.49 last year which is 24.27 this year, the cotton was Rs. 100 Crores, it is Rs.118 Crores this year, kids was Rs.6.84 Crores which is Rs. 7.12 Crores this year, textiles was 17 last year this is 27 Crores this year, Cloak and Dagger economy brand is 4.84 last year is 9.24 this year, Rock It is Rs.60 Lakhs, last year it was none, accessory it is 1.38 last year it is Rs.1.61 this year. So, total is 188 as compared to 156 last year.

Ashwini Agarwal: Lot of that is coming actually coming from textiles and from cotton.

Sandeep Jain: Textiles has almost jumped 55% as compared to last year, but in the next quarter it will go down, so overall, I think the mix will remain same for the financial year.

R.K. Sharma: You can see the percentage wise as far as the quarter is concerned.

Sandeep Jain: We can give you the figure percentage wise in fact like not in the absolute terms, what will be in this quarter at least.

Ashwini Agarwal: Yes.

Sandeep Jain: In this quarter if I see percentage wise, the Q2 FY2019 the wool segment was 30.8% which is 23% this year and the cotton segment was 56.9% which is 60.5% this year, home furnishing was 9.3 last year which is 13.1% this year and kids was 3% last year and 3.4% this year, but this mix will definitely change in the Q3.

Ashwin Agarwal: I remember you telling me that you had held a very big conference in Delhi for your dealers and you were trying to make a big push into South via this conference where you had invited 1500 dealers all over India. How did that go and how the order booking for the non-woolen products looking like for the next six months?

Sandeep Jain: We have seen a jump of around 15% as compared to last year, in that ratio and in south we are seeing a growth of around 30% to 35% in this financial year as compared to last year.

Ashwini Agarwal: So, we should see by the end of the year when we look at your regional distribution, we should see some pickup in South as compared to the last couple of years, would that be a fair statement?

Sandeep Jain: Yes, percentage wise, the southern will improve as compared to the last year in overall mix.

Ashwini Agarwal: But at the same time that should have a negative impact on margins because cottons have lower margin compared to woolens?

Sandeep Jain: No, cotton has higher margin as compared to wool if you compare last year with this year.

Ashwini Agarwal: So, you do not see any headwind to your margins because of this sales mix or because of this regional mix?

Sandeep Jain: Margins are higher in cotton. So, there is no chance of margin going down in overall mix.

Ashwini Agarwal: So, the margins are lower only in textiles, is that…?

Sandeep Jain: Margins are lower only in textiles it is traded goods so that is why the gross margins have gone down in this quarter because the textile sales have gone up considerably 55%. So that is the reason actually the gross margins have gone down and the next quarter when the textile sales will go down, other sales will pickup you will see the mix changing in the next quarter.

Moderator: Thank you. next we have a followup question from the line of Mr. Harish Shah who is an individual investor. Please go ahead.

Harish Shah: We were talking about the gross profit. but my line got disconnected. Anyway, I am not satisfied on your response, anyway we will leave that apart. We are using the other raw material for the woolen-blended fabric, so what you are using? You are using Acrylic or some other material?

Sandeep Jain: It is acrylic in wool.

Harish Shah: Acrylic is available in India or you have to import it.

Sandeep Jain: Acrylic is available in India.

Moderator: Thank you. The next question is from the line of Deepan Shankar from Trustline Portfolio Management. Please go ahead.

Deepan Shankar: Sir, I just want to understand the order book for this woolen segment, so how has it improved over the last year?

Sandeep Jain: Approximately 10% growth.

Deepan Shankar: You were expecting strong demand growth, so the growth has been lower than our expectation?

Sandeep Jain: Overall growth for this financial year we have projected 15% which is a combination of cotton and woolen segment. In woolen, I think we will be growing around 10% and in cotton we should be growing around 20%, so overall growth guidance would be 15% to 18% as per our original guidance, depending upon the sales and secondary sales.

Deepan Shankar: That is right but last quarter when we were discussing you were expecting a strong winter due to good monsoon and woolen sales also quite upbeat that is the guidance, we have given so that is what we wanted to understand?

Sandeep Jain: Yes, that has been happening per quarter because 60% of the sales as far as our business is concerned happens in Q3 so basically when we have the third quarter results I think all these questions which have been asked about the margins, about the gross margins, about the product mix, I think will get cleared once we have the Q3 results in our hand.

Deepan Shankar: Okay, so still we are upbeat on about winter sales for Q3 right?

Sandeep Jain: We are very upbeat on the Q3 performance.

Moderator: Thank you. As there are no further questions, I would like to hand the conference over to the management team for closing comments.

Sandeep Jain: Thank you very much for participating in the Monte Carlo's conference call and I think if there is any question which is not answered, or you need any more clarification, please mail us, you can mail us to Mr. Gogna, Mr. R.K. Sharma or to myself, we will be happy to answer that. Thank you very much once again.

Moderator: Thank you. On behalf of Emkay Global Financial Services that concludes this conference. Thank you for joining us. Ladies and gentleman, you may now disconnect your lines.